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PROGRAMME, THE ENVIRONMENT FUND AND ADMINISTRATIVE AND OTHER BUDGETARY MATTERS

Report of the Board of Auditors to the General Assembly on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1997

Note by the Executive Director

1. In accordance with paragraph 6 of Governing Council decision 18/46 of 25 May 1996, the Executive Director has the honour to submit herewith for the information of the Governing Council at its twentieth session the report of the Board of Auditors to the General Assembly on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1997. The report and audit opinion were originally circulated as chapters II and III of General Assembly document A/53/5/Add.6.

2. A report on the status of implementation of the recommendations contained in the report is being circulated under the symbol UNEP/GC.20/INF.7.

* UNEP/GC.20/1.

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Chapter II

Report of the Board of Auditors

Summary

The Board of auditors has audited the operations of the Fund of the United Nations Environment Programme (UNEP) at the headquarters of UNEP at Nairobi, the UNEP Regional Office for Asia and Pacific at Bangkok and the Regional Coordinating Unit for the East Asian Seas Action Plan at Bangkok. The Board has also validated the financial statements of the fund of UNEP for the period from 1 January 1996 to 31 December 1997. In addition, the Board carried out an examination of the Mercure satellite communications system and the management of trust funds as requested by the Advisory Committee on Administrative and Budgetary Questions in its letter dated 17 December 1996.

The Board's main findings are as follows:

(a) The financial statements of UNEP for the biennium ended 31 December 1997 conform to the United Nations System Accounting Standards, except that they do not disclose the value of non-expendable property acquired by cooperating agencies and supporting organizations out of the funds provided by UNEP;

(b) While the pledged contributions outstanding for more than four years in respect of environment fund have been proposed to be written off, no such action was taken in respect of unpaid pledges ($45.17 million) of other funds outstanding since periods prior to 1993;

(c) Of 147 projects implemented by supporting organizations and costing more than $50,000 each, audit certificates were not received in respect of 87 projects with total expenditure of $4.5 million;

(d) There were arrears of 24 months in reconciliation of inter-office vouchers as at 31 December 1997, compared with the arrears of 15 months at 31 December 1995;

(e) UNEP signed an agreement with the European Space Agency on behalf of the United Nations in November 1994 without establishing how the project would relate to the United Nations global network and without the formal instrument of powers to sign agreements on behalf of the United Nations. UNEP had not benefited from the project even two years after the expected date of completion of the project and an investment of more than $6 million;

(f) There were weaknesses in the programme management both under the trust funds and the environment fund, such as commencement of projects before their acceptance and/or approval, non-receipt or delay in receipt of quarterly expenditure statements and half-yearly progress reports, delay in receipt of terminal reports and self-evaluation fact sheets and delay in closure of the projects.

The key recommendations are:

(a) UNEP should review all unpaid pledges under the different funds and make appropriate provision in the accounts where the collection of income is considered doubtful.

The Administration should also consider recognizing pledges as income only when the funds are received;

(b) UNEP should continue efforts to ensure that executing agencies which are required to provide audit certificates in respect of moneys released from the Environment Fund do so soon after the end of the financial period;

(c) UNEP should reconcile all long outstanding inter-office vouchers as early as possible and adhere to the system of monthly reconciliation of inter-office vouchers in consultation with United Nations Headquarters;

(d) As a matter of urgency, UNEP should review the cost-effectiveness and viability of the Mercure project, including the compatibility of the Mercure satellite communications system with the United Nations communications system;

(e) UNEP should improve the management and control over projects by ensuring that objectives and outputs are clearly specified, periodical reports prescribed for monitoring the projects are received promptly and completed projects are closed timely.

A list of the Board's main recommendations is included in paragraph 12 of the present report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the Fund of the United Nations Environment Programme (UNEP) for the period from 1 January 1996 to 31 December 1997, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article XIV of the Financial Rules of UNEP. The audit has been conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto, and with the auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1996 to 31 December 1997 had been incurred for the purposes approved by the General Assembly; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the United Nations Environment Fund presented fairly the financial position at 31 December 1997. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at the headquarters of UNEP at Nairobi, the UNEP Regional Office for Asia and Pacific at Bangkok and the Regional Coordinating Unit for the East Asian Seas Action Plan at Bangkok.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. The reviews included the efficiency of the internal financial controls, programme management and, in general, the administration and management of UNEP.

5. The present report also addresses, in paragraphs 34 to 42 and 43 to 51, the special requests contained in the letter dated 17 December 1996 from the Advisory Committee on Administrative and Budgetary Questions to the Chairman of the Board of Auditors concerning the Mercure satellite communications system and the management of the trust funds.

6. The functions relating to human resources management and other staff-related services, common conference services, finance operations, general support services, including contracts and procurement, and information facilities were transferred to the United Nations Office at Nairobi with effect from 1 January 1996.

7. The Board continued its practice of reporting the results of specific audits through management letters to the Administration of UNEP containing detailed observations and recommendations. The practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

8. A summary of main recommendations is contained in paragraph 12. The detailed findings of the audit are reported in paragraphs 13 to 63.

9. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the report were communicated to the Administration, which has confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to its queries. The report is divided into two parts, covering the audit of the financial issues and management issues, respectively.

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1. Previous recommendations not fully implemented

10. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations that have not been fully implemented by UNEP. The years shown in parentheses (starting from the biennium 1990-1991) are those in which the recommendations were made by the Board:

(a) UNEP should ensure timely closure of completed projects (1990–1991 and 1994–1995);

(b) UNEP should obtain the value of non-expendable property purchased by the implementing agencies out of UNEP funds (1990–1991).

11. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

12. The Board recommends that the Administration:

(a) Obtain reports on the value of non-expendable property purchased by all implementing agencies out of UNEP funds and disclose the value in the notes to the financial statements (para. 15);

(b) Review all the unpaid pledges under the different funds and make appropriate provision in the accounts where the collection of the income is considered doubtful (para. 18);

(c) Continue efforts to ensure that executing agencies that are required to provide audit certificates in respect of moneys released from the Environment Fund do so soon after the end of the financial period (para. 23);

(d) Establish a system of periodic review of accounts receivable to recover and/or adjust the items (para. 27);

(e) Reconcile all long outstanding inter-office vouchers as early as possible and adhere to the system of monthly reconciliation of inter-office vouchers in consultation with United Nations Headquarters (para. 31);

(f) As a matter of urgency, review the cost-effectiveness and viability of the Mercure project, including the compatibility of the Mercure satellite communications system with the United Nations communications system (para. 42);

(g) Improve its management and control over projects by ensuring that objectives and outputs are clearly specified; that terms of reference for consultants are specified; and that quarterly expenditure and half yearly progress reports are received promptly. The Administration should also take action to obtain all prescribed reports so as to allow timely closure of completed projects (para. 50);

(h) Review the project management report sheet and include the specific outputs in it, in addition to ensuring they are updated on an ongoing basis to serve as an effective project management instrument (para. 51).

B. Financial issues

1. Financial statements

United Nations System Accounting Standards

13. The Board assessed the extent to which the UNEP financial statements for the biennium ended 31 December 1997 conform to the United Nations System Accounting Standards. The review indicated that the presentation of the financial statements is generally consistent with the standards except that they did not disclose the value of non-expendable property acquired by cooperating agencies and supporting organizations out of the funds provided by UNEP, as discussed below.

Non-expendable property

14. The value of non-expendable property at cost at UNEP headquarters and its field offices had been disclosed in note 9 to the financial statements as $8.98 million; this, however, only included the value ($10,770) of non-expendable property of two out of some 150 projects funded by UNEP through supporting organizations. The value of non-expendable property in other projects had not been included. The Administration stated that it would continue to take all the necessary action to obtain the outstanding reports on non-expendable property procured by the cooperating agencies and supporting organizations.

15. The Board recommends that reports on the value of non-expendable property purchased by the implementing agencies out of UNEP funds be obtained and the value of such property be disclosed in the notes to the financial statements.

Unpaid pledges

16. The Board noted that in respect of the Environment Fund the pledged contributions outstanding for more than four years had been proposed for write-off, whereas in the case of general trust funds, the multilateral fund under the Montreal Protocol and counterpart contributions, the Administration had neither prepared an ageing analysis of the unpaid pledges in order to monitor their realization nor had it made any provision for pledges considered uncollectable. Accordingly, the Board analysed these unpaid pledges, which totalled $173 million at 31 December 1997, and noted that $45.17 million related to the years 1988 to 1993 as shown below.

Table 1
Unpaid pledges outstanding, 1988–1993

(Millions of United States dollars)

	1988	*1989*	*1990*	*1991*	*1992*	*1993*	*Total*
Unpaid pledges	0.07	0.10	0.46	7.14	13.67	23.73	45.17

17. The Administration stated that, in its view, it was the prerogative of the parties contributing to the trust funds to make write-off decisions; it would take up pledges considered to be doubtful or uncollectable with the parties, as appropriate.

18. The Board recommends that the Administration review all unpaid pledges under the different funds and make appropriate provision in the accounts where the collection of the income is considered doubtful. The Administration should also consider recognizing pledges as income only when the funds are received.

Audit certificates for projects implemented by supporting organizations

19. The Board noted that during the biennium ended 31 December 1997, UNEP advanced $15.7 million to 232 supporting organizations for various projects/programmes. The expenditures incurred by those organizations are included in the financial statements of UNEP for the biennium ended 31 December 1997. Under the terms of the agreements with the supporting organizations undertaking projects costing more than $50,000 each, the organizations are required to have their accounts audited by public or government auditors and to submit the audit certificates to UNEP.

20. The Board noted that out of 147 projects costing more than $50,000 each, with an aggregate expenditure of $11.86 million, the supporting organizations had not submitted audit certificates in respect of 87 projects with expenditure totalling $4.5 million for the biennium ended 31 December 1997. The Board, therefore, was unable to obtain assurance about the utilization of this amount included as expenditure in the financial statements.

21. The Administration stated that while every attempt was made to obtain as many certificates as possible, in a few cases delays occur because: UNEP and its implementing partners had different fiscal years, implementing partners were busy with their own accounts around 31 March; and there were bureaucratic delays within the government machinery in releasing government audits.

22. The Board noted three cases where the audit certificates were provided by the internal auditors and not by the public or government auditors. The Administration stated that it would conduct a check of all audit certificates pertaining to the biennium ended 31 December 1997 with a view to ensuring that only audit certificates given by public or government auditors were accepted as valid certificates.

23. The Board recommends that the Administration continue efforts to ensure that executing agencies that are required to provide audit certificates in respect of moneys released from the Environment Fund do so soon after the end of the financial period.

Accounts receivable

24. The accounts receivable in the Environment Fund increased by 27 per cent, from $9.95 million at 31 December 1995 to $12.70 million at 31 December 1997.

25. The Board's analysis disclosed that of the amounts outstanding at 31 December 1997, $3.79 million related to staff and $8.91 million to vendors and others. The Board was concerned that $1.59 million was outstanding from staff for six months to one year and another $0.47 million was outstanding for over a year.

26. The Administration stated that the control and follow-up of receivables was expected to improve gradually in 1998 with an improved system for ageing the receivables, and with the recent hiring of an additional staff member in Financial Resource Management Services in the United Nations Office at Nairobi who would be dedicated to the task. Amounts outstanding for long periods would be reviewed on a case-by-case basis for consideration of write-off action in 1998.

27. The Board recommends that the Administration establish a system of periodic review of accounts receivable to recover and/or adjust the items.

Reconciliation of inter-office vouchers

28. In its report for 1994–1995 the Board expressed concern that inter-office vouchers had not been reconciled for 15 months at 31 December 1995. Despite the Board's recommendation that UNEP carry out periodic reconciliations of inter-office vouchers in

consultation with United Nations Headquarters, the Board noted that the position at 31 December 1997 had further deteriorated and that arrears of inter-office voucher reconciliations had increased up to 24 months; the reconciliation had been carried out only for inter-office vouchers received up to 31 December 1995.

29. The Board's analysis of the inter-office vouchers received by UNEP during 1996–1997 disclosed that of 320 inter-office vouchers totalling $3.94 million reported to have been sent by United Nations Headquarters, 82 inter-office vouchers with a total value of $0.82 million had not been received by UNEP.

30. The Administration stated that a review of outstanding inter-office vouchers would be undertaken in 1998.

31. The Board recommends that reconciliation of all long outstanding inter-office vouchers be completed as early as possible and that the Administration adhere to the system of monthly reconciliation of inter-office vouchers in consultation with United Nations Headquarters.

2. Write-off of losses of cash, accounts receivable and property

32. In accordance with the financial rule 111.10 (b), the Board was provided with details of cash, stores and other assets written off during the period from 1 January 1996 to 30 June 1997. A total amount of $86,134 was written off in the financial statements on account of three uncollectable receivables in compliance with financial rule 110.15, compared with $13,734 written off in the biennium 1994–1995.

3. Ex gratia payments

33. The Administration informed the Board that no ex gratia payments were made during the biennium 1996–1997.

C. Management issues

1. Programme management

Mercure satellite communications system

34. The Board carried out a review of the Mercure satellite communications system as requested by the Advisory Committee on Administrative and Budgetary Questions. The Board's findings and recommendations are as follows.

35. UNEP entered into an agreement with the European Space Agency (ESA) in November 1994 to accept a satellite communications system. Under the agreement, UNEP was committed to provide resources for the sites, staff training at each site, a satellite space segment and its recurring charges and the operational cost of the system for at least five years, including spare parts and maintenance, after the initial two year warranty period. The project consisted of 18 earth stations at different locations to provide connection through satellite. These were expected to provide data and computer transfers, facsimile, Internet and World-Wide-Web services, video-conferencing facilities and remote database access. The project was to be completed within 18 months of signing the agreement, that is, before the end of May 1996.

36. At 4 May 1998, UNEP had spent $6.23 million on the project, which included staffing costs of $2.36 million, $0.93 million towards space segment charges and $0.64 million for maintaining the integrity of the system network operations.

Legal authority for signing the agreement

37. UNEP signed the agreement with ESA on behalf of the United Nations on 25 November 1994 without establishing how the project would relate to the United Nations global network, and without the formal instrument of powers to sign agreements on behalf of the United Nations, which was pending at United Nations Headquarters. The Board observed that the Office of Legal Affairs of the United Nations Secretariat had expressed reservations and advised that the procedures for signing on behalf of the United Nations should be followed in the future.

Project implementation

38. There were shortcomings in the implementation of the project, which was intended to be fully operational by May 1996. The Board noted that:

(a) There were delays in setting up the earth stations and the project was not fully operational at April 1998;

(b) Full operation of the Mercure facility in Nairobi (Gigiri) had not been established since authorization for operating the system was under negotiation with the Government of Kenya at April 1998;

(c) The Mercure registration with the International Telecommunications Satellite Organization (INTELSAT) and the service agreement between UNEP and the Kenya Post and Telecommunications Corporation were signed only on 21 April 1998, although the project was expected to be fully operational by May 1996;

(d) The earth station at one location was expected to be operational only during the second quarter of 1998, while technical re-evaluation of the site at a second location had not been completed by April 1998 and administrative arrangements for installation, operation and maintenance of the system were yet to be finalized between UNEP and the host Government;

(e) At April 1998, video-conferencing was available only on a limited scale between three Mercure sites equipped with the necessary video equipment;

(f) Although voice services were not envisaged as part of the original Mercure system, this facility was proposed to be introduced at those sites where host Governments approved the use of Mercure for voice transmission.

39. The Board is concerned that UNEP has not benefited from this project even two years after the expected date of completion of the project and an investment of more than $6.0 million. The Administration stated that while there were delays, they did not always rest with UNEP and were often caused by delays on the part of other companies/organizations involved.

Non-compatibility of the Mercure communications system with the United Nations communications system

40. In February 1996 United Nation Headquarters declined to endorse the Mercure communications system for the United Nations communications network because the technical specifications of the United Nations network differed substantially from the Mercure communications system.

41. The Administration informed the Board that advance integration of services in Nairobi was currently under way.

42. The Board recommends that as a matter of urgency the Administration review the cost-effectiveness and viability of the project, including the compatibility of the Mercure satellite communications system with the United Nations communications system.

2. Trust Funds

43. The Board carried out a review of the management of the trust funds of UNEP, in accordance with the request of the Advisory Committee on Administrative and Budgetary Questions as noted in paragraph 5 above.

44. During the biennium, the Board noted that in total terms income exceeded expenditure by $76.86 million in respect of the General Trust Funds, the Technical Cooperation Trust Fund, the Multilateral Trust Fund under the Montreal Protocol and other trust funds, compared with an excess of income over expenditure of $213.8 million in the biennium 1994–1995. The Board also noted that UNEP held total unspent fund balances of $552.6 million in respect of the trust funds at 31 December 1997, compared with balances totalling $475.7 million as at 31 December 1995. The Board considers that the incomes of the trust funds should be utilized fruitfully on the programmes instead of accumulating as fund balances.

45. The Board's review of the database relating to 177 projects under the trust funds revealed several weaknesses in programme management, such as commencement of projects before their acceptance and/or approval, non-receipt or delay in receipt of quarterly expenditure statements and half-yearly progress reports, delay in receipt of terminal reports and self-evaluation fact sheets and delay in closure of the projects.

46. Some 82 of the 177 projects had been started during the biennium 1996–1997. At 31 December 1997, of the cumulative total commitments of $175.2 million on the 177 projects, $128 million had been spent. The Board noted that 129 projects had been started before they were accepted or approved. A total of 101 projects had reached their respective end dates on or before 31 December 1997, but were still treated as ongoing. These included four projects that had been scheduled for completion in 1989. The closing procedures in 13 trust fund projects which were closed during the biennium 1996–1997 took between 11 and 70 months.

47. The Board's selective review of 10 trust fund projects disclosed the following shortcomings in planning and implementation:

(a) project durations were extended by up to six years (four projects);

(b) The objectives and outputs were not specified in clearly measurable terms (two projects) and milestones had not been set (seven projects);

(c) Terms of reference of consultants had not been indicated (three projects);

(d) Quarterly expenditure reports at the end of the specified quarters were not received regularly (five projects) or were not received at all (five projects). Half-yearly progress reports were not submitted (four projects);

(e) Two projects closed without receipt of the required terminal reports;

(f) In one inactive project completed in December 1989, the terminal reports and self-evaluation fact sheets had been submitted before the project was closed;

(g) Although most of the project documents indicated that follow-up on the projects would be done, the Board did not find evidence of subsequent follow-up by the Administration.

48. The Administration stated that the average number of revisions per project had gone down from 1.9 in 1994–1995 to 1.7 in 1996–1997. It was reviewing the possibility of creating operating reserves, particularly for trusts of a continuing nature. The Administration further stated that in response to past audit recommendations, it had made every effort to obtain outstanding project reports in order to close the completed projects. It had also taken a number of steps to improve the project formulation and monitoring with the issue of revised guidelines in the form of a manual on project formulation, approval, monitoring and evaluation, which emphasized, *inter alia*, the importance of developing and using measurable concepts and addressed improvements in project monitoring and reporting.

49. The Administration had also introduced a project management report sheet for projects approved in the biennium 1996–1997, which listed all the reports and dates when they were expected and received. The Board's examination of the project management report sheets, however, disclosed that the system, started in the biennium 1996–1997, was yet to be implemented effectively since many items of information were not shown. Besides, the "outputs" were not specified in the project management report sheets.

50. The Board recommends that the Administration improve its management and control over projects by ensuring that objectives and outputs are clearly specified; terms of reference for consultants are specified; and quarterly expenditure and half-yearly progress reports are received promptly. The Board also reiterates its recommendation made in its report for 1990–1991 and again in 1994–1995 that action be taken to obtain all prescribed reports so as to allow timely closure of completed projects.

51. The Board also recommends that the Administration review the project management report sheet and include the specific outputs in it, in addition to ensuring that these are updated on an ongoing basis to serve as an effective project management instrument.

3. Environment Fund

52. In view of the shortcomings noted in planning and implementation of projects under the trust funds, the Board extended its examination to cover projects under the Environment Fund.

53. During the biennium, the Environment Fund had 396 ongoing, 217 inactive and 263 closed projects. The result of the Board's analysis of the Fund projects is summarized in table 2 below:

Table 2
Environment Fund projects

	Ongoing projects	*Inactive projects*	*Projects closed during the biennium*
Total number of projects	396[a]	217[b]	263[c]
Projects commenced before acceptance or approval	273	124	161
Projects not revised although scheduled completion dates were over	53	200[d]	NA

[a] Twenty-one were started during the biennium

[b] Seventeen were started during the biennium

[c] In 62 the closure procedure took from 2 to 9 years

[d] Of which 19 have been inactive since 1989

54. The Board noted that of the 396 ongoing projects, the Administration had not received half-yearly progress reports for 148 projects and quarterly expenditure statements for 81 projects. Although 264 of the projects had been completed, they continued to be classified as ongoing since terminal reports and/or self-evaluation fact sheets had not been received, of those, 140 were completed on or before 31 December 1995.

55. In addition, the Board's review of 22 projects revealed that:

(a) Objectives and outputs were not specified in clearly measurable terms (10 projects);

(b) Milestones for different stages were not set (6 projects);

(c) Terms of reference for consultants were not specified (11 projects);

(d) Quarterly expenditure reports were not received regularly (six projects) or were not received at all (7 projects);

(e) Half-yearly progress reports were not submitted (nine projects) or only partly submitted (5 projects);

(f) No terminal reports were prepared (3 projects) and terminal reports were delayed from 2 to 18 months (7 projects).

56. As noted above, similar problems were also noted in the projects under the trust funds. The Board reiterates its recommendations made in the case of trust funds.

Computerized project database

57. The computerized project database is the primary source for project recording, monitoring and preparation of the biennial inter-sessional Governing Council document on programme implementation. The Board's examination of the database disclosed that, while the scheduled dates of commencement and actual dates of completion of projects were recorded in the database, the actual dates of commencement and scheduled dates of completion had not been inserted. Similarly, while the final costs of projects were available in the database, their original costs were not recorded. The Board considers that it is necessary that the project database contain complete information for effective monitoring of programmes.

58. While agreeing to the inclusion of a "start date", the Administration stated that a history of revisions had been included since 1994.

59. The Board will keep this matter under review.

4. Property Survey Board

60. The Board reviewed documents relating to 64 cases submitted to the UNEP Property Survey Board during the biennium 1996–1997, which the Property Survey Board had disposed of at four meetings held between March 1997 and January 1998. The Board noted that action in accordance with the decisions of the Property Survey Board had not been completed in 50 per cent of the cases. By April 1998, for example, of the 32 cases decided in March 1997, action on 13 cases was pending. The Administration informed the Board that procedures, including time limits, had been prescribed for action to be taken on the decisions of the Property Survey Board.

61. The Board recommends that the Administration ensure that the procedures for taking action on the decisions of the Property Survey Board are adhered to and monitor compliance by exception.

5. Year 2000 issue

62. The management of the year 2000 issue for the information system in UNEP is being carried out by the United Nations Office at Nairobi. The Board's comments on this matter are included in the Board's report on United Nations Headquarters for 1996–1997.

6. Cases of fraud and presumptive fraud

63. The Administration informed the Board that no case of fraud or presumptive fraud had been reported during the biennium 1996–1997.

D. Acknowledgment

64. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Executive Director of the United Nations Environment Programme, his officers and staff.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1995[a]

Recommendation 11 (a)

1. The policy framework for interaction with non-governmental organizations involved in the field of environment should be further expedited. The catalytic role of UNEP and the role of field offices in programme planning, project formulation and implementation should be clearly defined.

Measures taken by the Administration

2. A policy statement on the subject of UNEP policy on non-governmental organizations and other major groups was issued on 30 October 1996 following a consultation process with selected non-governmental organizations and with the Executive Committee of UNEP. The catalytic role of UNEP is being exercised by eliciting contributions from scientific and other communities on emerging environmental issues.

Comments of the Board

3. The Board noted the measures taken by the Administration.

Recommendation 11 (b)

4. The merits and demerits of the present system of top-down planning and its impact on project implementation should be reviewed to see whether a more composite and timely process should be developed in its place.

Measures taken by the Administration

5. The current UNEP planning system is being started from the level of programme managers. While there were some administrative delays in the preparation of the 1994–1995 programme of work and project approval, no such problems were experienced in the 1996–1997 programme. Sub-projects directly linked to the activities of umbrella projects and annexes are being approved by circulating the documents among the Project Approval Group to ensure that they are in accordance with the main projects. If they are not in accordance, the Group meets as required.

Comments of the Board

6. The Board has noted the action taken by the Administration.

[a] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5F* (A/51/5/Add 6), chap. II, para. 11.

Recommendation 11 (c)

7. Planning and budgeting processes should be integrated by obtaining all necessary approvals for programmes and projects in accordance with a time schedule. Project implementation should be coordinated in such a way as to avoid an uneven flow of expenditure.

Measures taken by the Administration

8. UNEP has established a Project Approval Group to review and approve projects and, in general, to improve coordination. No major uneven flow of expenditures was experienced. However, this is subject to possible fluctuations in the funding and the timely payment of pledges (see also para. 21).

Comments of the Board

9. The Board has noted the developments.

Recommendation 11 (d)

10. A budgetary control mechanism should be put in place to avoid excess expenditure over allotments and the late recording of expenditures.

Measures taken by the Administration

11. Every effort is being made to ensure that project revisions are kept to a minimum. As a result, the number of revisions has been reduced.

Comments of the Board

12. The Board looks forward to further strengthening of the budgetary control mechanism.

Recommendation 11 (e)

13. UNEP should take measures to obtain the required documents to enable closure of all completed projects.

Measures taken by the Administration

14. Action has been taken to solicit from executing agencies all outstanding project reports and to effect timely closure of projects. Further cash advances for ongoing projects are being withheld pending submission of outstanding reports. One hundred projects were closed in 1996 and 163 at 31 December 1997.

Comments of the Board

15. While noting the special efforts of the Administration in obtaining the documents and progress in closing the projects, the Board's review during the biennium 1996–1997 disclosed that in the case of a number of projects the required documents were not received, as noted in the present report.

Recommendation 11 (f)

16. Efforts should be continued to ensure that all executing agencies provide audited expenditure statements and audit certificates in respect of monies released from the Environment Fund soon after the financial period is over.

Measures taken by the Administration

17. The UNEP manual on project design, approval and evaluation sets out the conditions relating to the submission of audit certificates. UNEP put in place the necessary measures in order to ensure the timely submission of the audited expenditure statement, that is, UNEP will withhold cash advances from those organizations that have not provided the audit certificates and will not enter into new contractual arrangements with supporting organizations that have not provided necessary audit documents. Thus, continuous efforts and strict policies have almost brought to an end the list of outstanding audit certificates. The remaining few will be dealt with promptly.

Comments of the Board

18. As brought out in the present report of the Board, the Administration had not obtained audit certificates from 87 of the 147 implementing agencies for $4.5 million by the time of finalization of the financial statements. The Administration should make efforts to obtain all audit certificates due from the implementing agencies by the time the financial statements of the biennium are finalized.

Recommendation 11 (g)

19. Budgetary assumptions should be modified to adopt an averaging method of estimating exchange rates and location-specific vacancy rates. UNEP should also prepare more realistic estimations of voluntary contributions.

Measures taken by the Administration

20. Budgetary assumptions have been modified in line with the recommendations. Revised 1996–1997 and proposed 1998–1999 budgets reflect the modifications. The contribution assumptions used in budget documents prepared for the Governing Council are based on actual payments recorded for the previous one or two years and an estimation of future payments. They are no more than an estimation of the contributions that would be required to implement the programme proposed to the Council, usually based on the programme requested by the Council at its previous session. Once the Council has approved a programme budget for the following biennium at its current session, an estimate of the contributions required to implement the approved budget is prepared. This represents the target of the contributions for that biennium. That target has not in the past been recorded in the report of the Council, but it is proposed to do so in future. Unfortunately, this adjusted target will not necessarily provide a protection against Governments reducing their contributions compared with the previous year (as happened in the current biennium) or even against Governments not contributing at the level they agreed in the Governing Council when they approve the programme.

Comments of the Board

21. The Board has noted the position.

Recommendation 11 (h)

22. The practice of placing piecemeal purchase orders for commonly used commodities should be avoided.

Measures taken by the Administration

23. UNEP now submits a procurement plan on an annual basis to the United Nations Office at Nairobi, which orders and stores one year's supply of furniture, stationery and other office supplies. Other supplies, such as cartridges with expiry dates, are ordered for half a year at a time. The United Nations Office at Nairobi feels that it is not always feasible to obtain procurement plans from projects because of difference in approval dates, funding, varying/changing implementation schedule, priorities and location. The United Nations Office at Nairobi has also conducted a study on the possibility of replacing all copiers by leased photocopiers and is now finalizing the implementation.

Comments of the Board

24. The Board takes note of the action taken.

Recommendation 11 (i)

25. The established rules and procedures on procurement, including those relating to competitive bidding, should be enforced more rigorously.

Measures taken by the Administration

26. The recommendation is being implemented.

Comments of the Board

27. The Board will review the implementation in its future audits.

Recommendation 11 (j)

28. Deliveries of supplies by vendors should be monitored against stipulated time schedules and a vendor performance system should be established early. Inclusion of a penalty clause in purchase orders, at least on a selective basis, should be considered.

Measures taken by the Administration

29. Deliveries of supplies by vendors are being monitored and a performance evaluation system has been established.

30. Specific penalty clauses have been incorporated on a selective basis. The United Nations Office at Nairobi general conditions provides for a penalty clause which, if warranted, will allow the United Nations Office at Nairobi to claim liquidated damages.

All purchase orders are subject to general conditions. However, in view of the location of the United Nations Office at Nairobi in a developing country in Africa, the vendors do not always accept such a clause. The clause can be counter productive since experience shows that inclusion of a penalty clause in a bidding document often increases the prices offered by vendors. The Office of Legal Affairs of the United Nations Secretariat has also opined that the objective to be achieved through the inclusion of penalty clause in contracts can instead be realized through the inclusion of liquidated damages clauses, without raising the same issues of validity and enforceability associated with penalty clauses.

Comments of the Board

31. The Board trusts that the Administration will include and enforce the penalty clause judiciously, at least in cases where the timeliness of supplies is crucial.

Recommendation 11 (k)

32. More comprehensive annual publishing programmes should be established in concert with all programme managers. Guidelines should be issued, including the requirement of prior approval of the Editorial Committee, to prevent unplanned external printing of publications.

Measures taken by the Administration

33. An executive directive on the Publications and Information Board was issued on 8 January 1997. More efficient planning is now provided through the Publications and Information Board, which will work closely with the Programme Coordination Committee. The 1996–1997 publishing programme was approved earlier.

34. Guidelines were issued on 20 August 1996 to the effect that all requests for printing publications should be submitted first to the United Nations Office at Nairobi Document Reproduction and Distribution Unit for review to see if the work could be done in-house before contacts for outside quotations were made. Printing of publications under a co-publishing programme is an exception.

35. The UNEP Publications Manual sets the requirement that all publications need approval of the Editorial Committee. Thus separate guidelines are not needed in this respect.

36. New chapters of the UNEP Publications Manual on electronic publishing have been approved by the Publications and Information Board.

Comments of the Board

37. The Board is pleased to note the action taken by the Administration.

Recommendation 11 (l)

38. Appointment of consultants should be regulated in line with the established policies; the roster of consultants should be reviewed and updated periodically. Selection of consultants should be made after considering alternate candidates by widening the search for prospective candidates. Guidelines should be established for determining consultants' fees.

Measures taken by the Administration

39. On 5 March 1995, UNEP issued revised guidelines for recruitment of consultants to ensure that consultancies are awarded on the basis of established need, expertise and value for money. UNEP will make every effort to select consultants from a full range of countries, including developing countries and countries with economies in transition, taking due consideration of geographical and gender balance. Additionally, following the merging of the administrations of the United Nations Habitat and Human Settlements Foundation (Habitat) and UNEP on 1 January 1996, a joint working group was set up to undertake a comprehensive review of the procedure governing the recruitment of consultants (e.g., fees) and to improve the comparative evaluation, at the same time harmonizing the procedures of UNEP, Habitat and the United Nations Office at Nairobi. The proposal from the working group on harmonizing the consultancy procedures was finalized and a circular introducing new guidelines was distributed on 27 June 1997, to be effective from 15 July 1997 and reviewed after nine months. The roster of candidates has also been updated.

40. The Executive Director reports on the status of consultancies on a quarterly basis to the Committee of Permanent Representatives. The information which is regularly reported, includes details of the purpose of consultancies awarded, length of consultancies, geographical distribution of consultants, amount paid by the United Nations and evaluation of completed consultancies.

Comments of the Board

41. The Board notes the measures taken by the Administration.

Recommendation 11 (m)

42. The possibility of renting out the available surplus capacity of the conference facilities should be considered.

Measures taken by the Administration

43. The United Nations Office at Nairobi has entered into a contract with a company for the marketing, promotion and public relations for the conference services. The contractor has undertaken to promote the use of conference facilities at the United Nations Complex, Gigiri.

Comments of the Board

44. The Board proposes to review the results of the action taken by the Administration in its future audits.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to IX of the United Nations Environment Programme and the supporting notes for the period from 1 January 1996 to 31 December 1997. These financial statements are the responsibility of the Executive Director of the United Nations Environment Programme at Nairobi. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the Board of Auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with the Organization's stated accounting policies set out in note 2 to the financial statements which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the United Nations Environment Programme which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the United Nations Environment Programme.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(*Signed*) Osei Tutu **Prempeh**
Auditor-General of Ghana

(*Signed*) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998